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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

July 23, 1982

MEMORANDUM FOR SECRETARY REGAN

FROM: Marc E. Leland

SUBJECT: US-USSR Grain Agreement

Attached is a summary of this issue, cleared through the IG-IEP, and a report on the IG's consideration of timing and consultation questions related to a grain agreement decision. The CCFA and the full Cabinet already have discussed the Agreement in some detail. Four options emerged, and a fifth was added by the IG at its meeting on July 22, 1982. These options are:

1. Allow the Agreement to expire on September 30, 1982.

2. Extend the Agreement for one year.

3. Extend the Agreement for two or more years, with provision for higher minimum Soviet purchases.

4. Negotiate a new, multi-year Agreement, with additional guarantees for Soviet access to U.S. grain supplies.

5. Extend the Agreement for one year with amendment providing for higher minimum Soviet purchases.

Attachments

NSC HAS REVIEWED

ON FILE TREASURY RELEASE INSTRUCTIONS APPLY

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Classified by Marc E. Leland
☐ Declassify ☒ Review for Declassification on 7/23/90

U.S.- U.S.S.R. GRAIN AGREEMENT

ISSUE

- The EC is extremely critical of the U.S. grain sales to the U.S.S.R. while this country presses for cooperation on trade sanctions against the Soviets. The current U.S.-U.S.S.R. Grain Agreement will expire on September 30, 1982 and the Administration must decide soon whether to negotiate a new agreement, extend the current one, or allow it to expire.

I. BACKGROUND

Soviet food policy shifted in the early 1970's from one of living with wide variation in grain supplies and slow growth in production of livestock products to one of raising the trend in livestock output and using grain imports to balance surges and shortfalls in production. The first indication of the new policy came in 1972 when the Soviets purchased 19 million tons of grain in U.S. markets within 3 months. In the wake of continued volatile and largely unpredictable purchases from the U.S., the Ford Administration suspended sales in 1975 until the U.S.-U.S.S.R. long-term grain agreement (LTG) was negotiated. The agreement required minimum Soviet purchases (6 mmt) and allowed them to purchase 2 million additional tons without consultation. The purchases were to be evenly spaced over the year. Purchases above 8 million tons could be made only after consultations with U.S. officials. During 1976-79, when the agreement was in force and before the January 1980 embargo, grain sales were less volatile than previously and the U.S. share of the Soviet market increased. Although the embargo was lifted in April 1981, the Soviets have only purchased U.S. grain residually to other supplies, notably from Argentina, Australia, and Canada. This pattern has been reinforced by the postponement of negotiations on a new agreement in the aftermath of the Polish Declaration of Martial Law. As a result, the U.S. has slipped from supplying a peak of over 70 percent of U.S.S.R. grain imports to around 40 percent. Only a fourth consecutive poor U.S.S.R. crop will prevent the U.S. share from declining even further in 1982/83.

II. DISCUSSION

<u>Soviet Requirements</u>. The U.S.S.R. has imported over 100 mmt of grain since June 1979, and will likely import another 40-45 mmt by July 1983. It now appears that the volatility in grain import requirements is being compounded by chronic failure to meet long term output goals. Total Soviet imports of food items, including e.g., meat, dairy products, sugar, vegetable oil, etc., account for 40 percent of all hard currency imports. In 1982, the total bill for agricultural products will likely increase by $1 billion up to $12 billion, but the total will depend on several policy and production related factors.

The Soviets are committed to ambitious food goals through the 1980's, with the intent of relying more heavily on domestic production. Although they have indicated a shift to decreased reliance on capitalist countries as a food source, the consumption goals will be difficult to meet without large-scale imports from the West.

World Grain Trade. The U.S.-U.S.S.R. Agreement is expected to have little impact on grain trading patterns in the next year. In the longer term, however, the lack of an agreement would remove the minimum levels of Soviet purchases from the U.S. Without an LTG, other exporters would likely continue their recent pattern of production expansion, to the detriment of U.S. market share in the U.S.S.R. Since 1980, Argentina and Canada have increased production by roughly 25 percent. Even larger supplies in the future will mean increased competition for non-Soviet grain trade as well.

U.S. Foreign Policy Considerations. The U.S. is pursuing, and encouraging its allies to pursue, a general policy of economic restraint with the U.S.S.R., based upon fair burden sharing in the West. A government-to-government agreement, especially one perceived as newly-negotiated, that promotes grain exports, would be regarded as an exception to that policy. It would provide Moscow with partial insurance against any future changes in grain export policy.

More specifically, negotiations with the Soviets would signal an end to one of the President's measures against the U.S.S.R. in response to the Poland crisis, undercutting the general package of Poland-related sanctions, and implying that the situation there has improved and that the U.S is prepared to adopt a "business as usual" stance. The Soviets could be expected to promote this interpretation vigorously.

Resuming negotiations would conflict with the decision to extend extraterritorially sanctions on oil and gas equipment and technology. In the absence of real changes in Poland, resuming negotiations would undermine U.S. credibility on burden sharing and U.S. efforts to induce its allies to exercise restraint in credit and trade arrangements with the U.S.S.R.

The EEC heavily criticizes the U.S. for continuing the Grain Agreement while we request them to undertake sanctions against the Soviets. Allowing the Agreement to expire, however, is unlikely to change the Europeans' attitudes. They will see our demand for additional sanctions as unreasonable regardless of the status of the Agreement. Furthermore, even without an agreement, the Soviets are likely to continue purchasing considerable amounts of U.S. grain (at least in the next year); thus, the Europeans would accuse the U.S. of undertaking no real hardship in the near term by letting the Agreement expire. Furthermore, the Europeans seem to use the Agreement as an argumentative point and care little about the substance of grain sales.

Renegotiation of the Agreement, however, (or extension of an amended agreement with a larger minimum) might cause even more rhetoric from the Europeans. They might also refuse to undertake any further sanctions and could even reverse those already imposed.

In the absence of an agreement, the U.S. would have to take drastic action under the Export Administration Act to limit Soviet purchases from the U.S. either through export controls on all foreign customers (because of severe domestic shortages) or through use of the national security and foreign policy provisions of the Act. Thus, continuation of the current agreement would be more effective in regulating U.S.-U.S.S.R. grain trade than letting the agreement expire. Some analysts believe that a new agreement would increase Soviet vulnerability to a new embargo.

On the domestic front, the U.S. farm sector is experiencing serious economic hardships in the face of record grain supplies and low prices, as well as high interest costs and continuing increases in the prices of production items. Relieving these burdens on farmers will require continuation and possibly expansion of farm programs which will require additional budget outlays. The negotiation of a new agreement that guarantees a larger share of the Soviet market for U.S. farmers is virtually the only cost-free, market-oriented step the Adminstration can take to help the farm community. It is also consistent with the central feature of the Administration's farm policy--increasing agricultural exports. Farmers will regard the decision on the agreement as a test of Administration commitment to agriculture. The U.S. maritime industry also has an interest in a new agreement in order to preserve a share of the U.S.-Soviet grain trade for U.S. shipping.

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Note: USDA has recorded its objection to paragraphs 2 and 3 under the section entitled U.S. Foreign Policy Considerations on the preceding page and to the final sentence of paragraph 2 on this page.